Committee on Ways and Means

H.R. 1776, Pension Preservation and Savings Expansion Act of 2003
Summary of Chairman's Amendment in the Nature of a Substitute

In 2001, the *Economic Growth and Tax Relief Reconciliation Act* was signed into law. The new law included the bipartisan Portman-Cardin pension provisions, which significantly reformed the pension laws and increased retirement savings opportunities. The Chairman's amendment to H.R. 1776 would build on these pension reforms by further enhancing savings opportunities and bringing more equity and simplification to the pension rules.

- **Accelerating Savings Limits and Building Retirement Assets.** The Chairman's amendment would help workers increase their retirement savings by accelerating the increases in 401(k) and IRA savings limits enacted in the 2001 law (to $15,000 and $5,000, respectively). The increase in catch-up contribution limits for workers age 50 and older would also be accelerated. The bill would provide for faster vesting of employer contributions and would assist lower-income workers by extending and expanding the saver's tax credit, which was enacted in 2001. Finally, the bill would allow individuals with disabilities to contribute to an IRA.

- **Enhancing Portability of Pension Assets.** The Chairman's amendment would further enhance portability and help augment pension assets by allowing workers to transfer pension savings to a spouse's retirement plan, allowing rollovers by non-spouse beneficiaries, and allowing direct rollovers from workplace retirement plans to Roth IRAs.

- **Revitalizing Defined Benefit Plans.** The Chairman's amendment would begin to institute a replacement to the 30-year Treasury bond rate based on the Administration's proposal. This rate has fallen dramatically since the discontinuation of 30-year bond issues and no longer serves as an accurate benchmark for pension calculations. The amendment provides an updated and more accurate benchmark to measure pension liabilities over the next three years. The new benchmark would be based on a blend of long-term, conservative corporate bond rates. A permanent replacement will be considered in the context of a comprehensive reform of the funding rules and actuarial assumptions to ensure sounder pension funding. The legislation also reforms a variety of rules applicable to defined benefit plans that have complicated plan administration and discouraged employers from offering these plans.

- **Expanding Small Business Pension Coverage.** The Chairman's amendment would allow employers to make additional contributions to SIMPLE and SEP retirement plans to help employees of small businesses build larger nest eggs. It also contains several provisions that would reduce regulatory burdens and costs for small employers starting new pension plans. These provisions were included in the 2001 tax relief act, but were ultimately dropped because of procedural rules in the Senate.

- **Updating Rules for Required Pension Distributions.** The Chairman's amendment would update the minimum distribution rules that were enacted in 1962. These rules force individuals to start withdrawing their retirement assets at age 70½. The bill would gradually increase this starting age to 75, which reflects increased life expectancy since the rule was enacted in 1962.

- **Enhancing Fairness for State and Local Government Workers.** The Chairman's amendment would waive the 10% early withdrawal penalty on distributions from certain pension plans that benefit public safety officers in recognition of the fact that public safety officers often retire early because of the nature of their jobs. The amendment also clarifies current law rules that allow public-sector workers to purchase service credits to accumulate enhanced pension benefits. The amendment makes other changes to clarify rules relating to portability between government pension plans.

- **Simplifying Pension Administration and Promoting Equity.** The Chairman's amendment includes several provisions to simplify pension plan administration and reduce regulatory burdens. It also includes several clarifications to the law to enhance equity. These provisions make it easier for employers to offer catch-up contributions to their employees and clarify the exceptions to the 10% early withdrawal tax.

- **Clarify that Payroll Taxes Do Not Apply to Statutory Stock Options.** The Chairman's amendment clarifies that the exercise of a statutory stock option is not subject to payroll tax. Statutory stock options are offered to rank-and-file employees and middle management.